



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE _____ April 25, 2003

The Office of Auditor of State today released an audit report on the City of Van Horne, Iowa.

The City's receipts totaled \$717,591 for the year ended June 30, 2002. The receipts included \$182,133 in property tax, \$150,377 from the state, and \$5,313 in interest on investments. The City also received sewer revenue bond proceeds of \$521,900 that are reported as an other financing source.

Disbursements for the year totaled \$1,199,526, and included \$102,478 for community protection, \$41,597 for human development, \$1,001,805 for home and community environment, and \$53,646 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, the City should segregate accounting duties to the extent possible with existing personnel. Also, City personnel should prepare a reconciliation of utility billings, collections, and delinquencies for each billing period. The City has responded favorably to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

#

CITY OF VAN HORNE

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2002

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City of Van Horne

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Jeffrey Verschoore	Mayor	Jan 2002
Jim Barr	Mayor Pro tem	Jan 2002
Jim Parmenter	Council Member	Jan 2002
Joel Pech	Council Member	Jan 2002
Tammy McKenna	Council Member	Jan 2004
Jerreldene Simmons	Council Member	Jan 2004
Sandra Gibney	Clerk	Indefinite
Larry Schlue	Attorney	Indefinite
(After January 2002)		
Jeffrey Verschoore	Mayor	Jan 2004
Jim Parmenter	Mayor Pro tem	Jan 2006
Adam Masten	Council Member	Jan 2004
Jerreldene Simmons	Council Member	Jan 2004
Martin Junge	Council Member	Jan 2006
Matthew Minor	Council Member	Jan 2006
Sandra Gibney	Clerk	(Resigned March 19, 2003)
Linda Klopping (Appointed)	Clerk	Indefinite
Larry Schlue	Attorney	Indefinite

City of Van Horne



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Van Horne, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Van Horne's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Van Horne as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated February 27, 2003 on our consideration of the City of Van Horne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

February 27, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Van Horne
Combined Statement of Cash Transactions
All Fund Types
Year ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 117,002	42,979	22,152
Other city tax	5,459	2,036	940
Tax increment financing collections	29,315	-	-
Licenses and permits	2,001	-	-
Use of money and property	4,149	187	-
Intergovernmental	43,058	137,110	-
Charges for service	1,025	-	-
Miscellaneous	18,262	10,577	-
Total receipts	220,271	192,889	23,092
Disbursements:			
Community Protection Program	64,133	15,479	22,866
Human Development Program	39,371	2,226	-
Home and Community Environment Program	56,431	179,135	5,654
Policy and Administration Program	52,321	1,325	-
Total disbursements	212,256	198,165	28,520
Excess (deficiency) of receipts over (under) disbursements	8,015	(5,276)	(5,428)
Other financing sources (uses):			
Sewer revenue bond proceeds	-	-	-
Transfers in	33,418	950	11,433
Transfers out	(25,138)	-	-
Total other financing sources (uses)	8,280	950	11,433
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	16,295	(4,326)	6,005
Balance beginning of year	147,022	95,873	1,126
Balance end of year	\$ 163,317	91,547	7,131

See notes to financial statements.

Proprietary Fund Type		Fiduciary Fund Type	Total
Enterprise	Internal Service	Trust	(Memorandum Only)
-	-	-	182,133
-	-	-	8,435
-	-	-	29,315
-	-	-	2,001
3	868	106	5,313
-	-	-	180,168
271,699	-	-	272,724
3,561	5,102	-	37,502
275,263	5,970	106	717,591
-	-	-	102,478
-	-	-	41,597
760,585	-	-	1,001,805
-	-	-	53,646
760,585	-	-	1,199,526
(485,322)	5,970	106	(481,935)
521,900	-	-	521,900
16,665	-	-	62,466
(16,665)	(20,557)	(106)	(62,466)
521,900	(20,557)	(106)	521,900
36,578	(14,587)	-	39,965
(7,657)	14,587	2,000	252,951
28,921	-	2,000	292,916

City of Van Horne

Comparison of Receipts, Disbursements and Changes in Balances –

Actual to Budget

Year ended June 30, 2002

	Less Funds not Required to be Budgeted		Net
	Actual		
Receipts:			
Property tax	\$ 182,133	-	182,133
Other city tax	8,435	-	8,435
Tax increment financing collections	29,315	-	29,315
Licenses and permits	2,001	-	2,001
Use of money and property	5,313	187	5,126
Intergovernmental	180,168	-	180,168
Charges for service	272,724	-	272,724
Miscellaneous	37,502	10,577	26,925
Total receipts	717,591	10,764	706,827
Disbursements:			
Community Protection Program	102,478	15,479	86,999
Human Development Program	41,597	-	41,597
Home and Community Environment Program	1,001,805	-	1,001,805
Policy and Administration Program	53,646	-	53,646
Total disbursements	1,199,526	15,479	1,184,047
Deficiency of receipts under disbursements	(481,935)	(4,715)	(477,220)
Other financing sources, net	521,900	-	521,900
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	39,965	(4,715)	44,680
Balance beginning of year	252,951	11,660	241,291
Balance end of year	\$ 292,916	6,945	285,971

See notes to financial statements.

Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
182,421	(288)	100%
7,870	565	107%
30,000	(685)	98%
1,871	130	107%
5,000	126	103%
102,077	78,091	177%
359,737	(87,013)	76%
24,000	2,925	112%
712,976	(6,149)	99%

102,474	15,475	85%
54,256	12,659	77%
372,634	(629,171)	269%
191,509	137,863	28%
720,873	(463,174)	164%

(7,897)

-

(7,897)

184,225

176,328

City of Van Horne
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire station	Jan 1, 1994	4.625-5.25%	\$ 250,000
Water	Dec 15, 1998	4.60	50,000
Total			
Revenue bonds:			
Sewer	Mar 28, 2001	4.30%	\$ 531,150

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
150,000	-	15,000	135,000	7,566	-
36,175	-	4,822	31,353	832	5,654
\$ 186,175	-	19,822	166,353	8,398	-
9,250	521,900	-	531,150	3,824	-

City of Van Horne

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Van Horne is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Van Horne has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Van Horne (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Van Horne Fireman's Association, Incorporated is established as a non-profit corporation under Chapter 504A of the Code of Iowa. The Association has been established to preserve life and property in the City of Van Horne in case of fire or other emergency and to promote fire prevention and fire safety. Although the Association is legally separate from the City, its purpose is to benefit the City by providing the above services and by soliciting contributions and managing those funds.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Benton County Assessor's Conference Board, Benton County Emergency Management Commission and Benton County Joint E911 Service Board.

The City also participates in the Van Horne Benefited Fire District No. 1, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Internal Service Fund – The Internal Service Fund is utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Expendable Trust Fund – The Expendable Trust Fund is used to account for monies and properties received and held by the City in a trustee capacity.

C. Basis of Accounting

The City of Van Horne maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment, and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for the general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes			
	Fire Station			
	Issued January 1, 1994			
	Interest Rates		Principal	Interest
2003	4.75%	\$	15,000	6,873
2004	5.00		20,000	6,160
2005	5.00		20,000	5,160
2006	5.10		20,000	4,160
2007	5.20		20,000	3,140
2008	5.25		20,000	2,100
2009	5.25		20,000	1,050
Total		\$	135,000	28,643

General Obligation Water Note:

On December 15, 1998, the City approved a \$50,000 general obligation water note to construct improvements to the municipal waterworks system. The note will be repaid in nine equal semiannual installments of \$5,654 beginning June 1, 2000, and ending December 1, 2004. The note bears interest at 4.60% per annum and the unpaid balance at June 30, 2002, totaled \$31,353.

Sewer Revenue Bonds

The resolution approving the issuance of the sewer revenue bonds under a loan agreement between the City of Van Horne, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholder holds a lien on the future earning of the funds.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking fund for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the bond principal and interest falling due in the same year.

During the year ended June 30, 2002, the City received \$521,900 of the \$925,000 authorized. Wells Fargo Bank Iowa, N.A. holds the remaining amount in trust, and the City will request further draws as the project progresses. Since the City is drawing funds on the sewer revenue bonds, a formal repayment schedule has not yet been adopted for that debt. The City has not established the sinking account required by the sewer revenue bond resolution.

(4) Operating Lease

The City has leased a vehicle for use by the City Superintendent. This lease has been classified as an operating lease and, accordingly, all rents are charged as incurred. Rent for the year ended June 30, 2002 totaled \$6,432.

The lease expires in 2003. The remaining rental payment required under the lease at June 30, 2002 totals \$6,432.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 and 2001 was \$4,815 and \$4,481 respectively, equal to the required contribution for the years.

(6) Compensated Absences

The City Clerk and City Superintendent accumulate a limited amount of earned but unused vacation days for subsequent use or payment. Each fiscal year, the City Clerk and City Superintendent may choose to be paid for ten days of unused vacation or to carry ten days of vacation forward into the next fiscal year. The City's approximate liability for earned vacation payable to employees at June 30, 2002, primarily relating to the General Fund, was \$2,100. This liability has been computed based on rates of pay in effect at June 30, 2002.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002, disbursements in the Home and Community Environment Program exceeded the amount budgeted.

(8) Risk Management

The City of Van Horne is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balances

The Enterprise, Sewer Fund, had a deficit balance of \$11,450 at June 30, 2002. Also, the Enterprise, Water Revenue Fund had a deficit balance of \$11,729 at June 30, 2002. The deficits were the result of project costs incurred prior to the receipt and availability of funds.

(10) Subsequent Events

On July 11, 2002, the City approved entering into a construction contract for wastewater treatment plant improvements totaling \$825,000. The project will be funded through the sale of general obligation notes.

On November 12, 2002, the City entered into a water purchase contract with Poweshiek Water Association. The contract states Poweshiek Water Association will provide water to the City for \$2 per 1,000 gallons and an initial connection fee of \$624,961. The project will be funded through future water revenues and through the sale of general obligation notes.

(11) Special Investigation

City of Van Horne officials requested the Office of Auditor of State to perform a special investigation of the City's disbursements after identifying concerns with certain reimbursements prepared by and issued to the former Clerk. The special investigation identified \$7,776.44 of improper disbursements and \$731.91 of questionable disbursements.

Copies of the Auditor of State's special investigation report were filed with the Benton County Attorney's Office, the Division of Criminal Investigation, and the Attorney General's Office.

City of Van Horne

City of Van Horne
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire Equipment Replacement	First Responders Equipment Replacement
Receipts:			
Property tax	\$ 117,002	-	-
Other city tax:			
Mobile home tax	367	-	-
Utility tax replacement excise tax	5,092	-	-
	5,459	-	-
Tax increment financing collections	29,315	-	-
Licenses and permits	2,001	-	-
Use of money and property:			
Interest on investments	2,615	8	293
Intergovernmental:			
State allocation	10,861	-	-
Bank franchise tax	2,406	-	-
Van Horne Benefitted Fire District No. 1	24,187	-	-
County contribution	5,604	-	-
	43,058	-	-
Charges for service:			
Community center	-	-	-
Miscellaneous:			
Donations	908	-	-
Refunds and reimbursements	801	-	-
Miscellaneous	4,209	-	-
	5,918	-	-
Total receipts	205,368	8	293

Library	First Responders	Park and Recreation	Total
-	-	-	117,002
-	-	-	367
-	-	-	5,092
-	-	-	5,459
-	-	-	29,315
-	-	-	2,001
-	1,233	-	4,149
-	-	-	10,861
-	-	-	2,406
-	-	-	24,187
-	-	-	5,604
-	-	-	43,058
-	-	1,025	1,025
531	11,813	-	13,252
-	-	-	801
-	-	-	4,209
531	11,813	-	18,262
531	13,046	1,025	220,271

City of Van Horne
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire Equipment Replacement	First Responders Equipment Replacement
Disbursements:			
Community Protection Program:			
Police:			
Contractual services	14,040	-	-
Traffic safety	1,044	-	-
Fire:			
Contractual services	10,675	-	-
Commodities	5,105	-	-
Capital outlay	6,799	-	-
	22,579	-	-
Ambulance:			
Contractual services	5,213	-	-
Commodities	216	-	-
	5,429	-	-
Street lighting	11,070	-	-
	54,162	-	-
Human Development Program:			
Library:			
Personal services	10,269	-	-
Contractual services	3,217	-	-
Commodities	8,625	-	-
	22,111	-	-
Park and recreation:			
Personal services	630	-	-
Commodities	4,928	-	-
	5,558	-	-
Community building:			
Personal services	3,600	-	-
Commodities	626	-	-
Capital outlay	2,058	-	-
	6,284	-	-
	33,953	-	-

Library	First Responders	Park and Recreation	Total
-	-	-	14,040
-	-	-	1,044
-	-	-	10,675
-	-	-	5,105
-	-	-	6,799
-	-	-	22,579
-	-	-	5,213
-	9,971	-	10,187
-	9,971	-	15,400
-	-	-	11,070
-	9,971	-	64,133
-	-	-	10,269
-	-	-	3,217
4,543	-	-	13,168
4,543	-	-	26,654
-	-	-	630
-	-	875	5,803
-	-	875	6,433
-	-	-	3,600
-	-	-	626
-	-	-	2,058
-	-	-	6,284
4,543	-	875	39,371

City of Van Horne
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire Equipment Replacement	First Responders Equipment Replacement
Home and Community			
Environment Program:			
Street maintenance:			
Personal services	3,489	-	-
Contractual services	1,557	-	-
Commodities	17,482	-	-
Capital outlay	33,903	-	-
	<u>56,431</u>	-	-
Policy and Administration Program:			
Legislative:			
Mayor	1,650	-	-
Council	2,200	-	-
	<u>3,850</u>	-	-
Clerk:			
Personal services	6,976	-	-
Contractual services	8,955	-	-
Commodities	6,407	-	-
	<u>22,338</u>	-	-
Legal services	<u>2,640</u>	-	-
City hall:			
Contractual services	12,579	-	-
Commodities	753	-	-
	<u>13,332</u>	-	-
Insurance	<u>10,161</u>	-	-
	<u>52,321</u>	-	-
Total disbursements	<u>196,867</u>	-	-
Excess (deficiency) of receipts over (under) disbursements	<u>8,501</u>	<u>8</u>	<u>293</u>

Library	First Responders	Park and Recreation	Total
-	-	-	3,489
-	-	-	1,557
-	-	-	17,482
-	-	-	33,903
-	-	-	56,431
-	-	-	1,650
-	-	-	2,200
-	-	-	3,850
-	-	-	6,976
-	-	-	8,955
-	-	-	6,407
-	-	-	22,338
-	-	-	2,640
-	-	-	12,579
-	-	-	753
-	-	-	13,332
-	-	-	10,161
-	-	-	52,321
4,543	9,971	875	212,256
(4,012)	3,075	150	8,015

City of Van Horne
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire Equipment Replacement	First Responders Equipment Replacement
Other financing sources (uses):			
Operating transfers in (out):			
General:			
General	-	9,347	3,408
Fire Equipment Replacement	(9,347)	-	-
First Responders Equipment Replacement	(3,408)	-	-
Special Revenue:			
Tax Increment Financing	(950)	-	-
Debt Service	(11,433)	-	-
Internal Service:			
Equipment Replacement	20,557	-	-
Expendable Trust:			
Library Memorial	-	-	-
Total other financing sources (uses)	(4,581)	9,347	3,408
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,920	9,355	3,701
Balance beginning of year	52,838	46,740	5,257
Balance end of year	\$ 56,758	56,095	8,958

See accompanying independent auditor's report.

Library	First Responders	Park and Recreation	Total
-	-	-	12,755
-	-	-	(9,347)
-	-	-	(3,408)
-	-	-	(950)
-	-	-	(11,433)
-	-	-	20,557
106	-	-	106
106	-	-	8,280

(3,906)	3,075	150	16,295
7,839	34,123	225	147,022
3,933	37,198	375	163,317

City of Van Horne
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Employee Benefits	Emergency
Receipts:			
Property tax	\$ -	39,594	3,385
Other City Tax:			
Mobile home tax	-	126	10
Utility tax replacement excise tax	-	1,752	148
	-	1,878	158
Use of money and property:			
Interest on investments	-	-	-
Intergovernmental:			
Road use tax allocation	137,110	-	-
Miscellaneous:			
Gifts and fund raisers	-	-	-
Total receipts	137,110	41,472	3,543
Disbursements:			
Community Protection Program:			
Fire protection services	-	-	-
Human Development Program:			
Personal services	-	2,226	-
Home and Community Environment Program:			
Personal services	-	18,720	-
Contractual services	12,140	-	-
Capital outlay	148,275	-	-
	160,415	18,720	-
Policy and Administration Program:			
Personal services	-	1,325	-
Total disbursements	160,415	22,271	-
Excess (deficiency) of receipts over (under) disbursements	(23,305)	19,201	3,543
Other financing sources:			
Operating transfers in:			
General:			
General	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(23,305)	19,201	3,543
Balance beginning of year	53,571	966	30,626
Balance end of year	\$ 30,266	20,167	34,169

See accompanying independent auditor's report.

Tax Increment Financing	Volunteer Fire Department	Total
-	-	42,979
-	-	136
-	-	1,900
-	-	2,036
-	187	187
-	-	137,110
-	10,577	10,577
-	10,764	192,889
-	15,479	15,479
-	-	2,226
-	-	18,720
-	-	12,140
-	-	148,275
-	-	179,135
-	-	1,325
-	15,479	198,165
-	(4,715)	(5,276)
950	-	950
950	(4,715)	(4,326)
(950)	11,660	95,873
-	6,945	91,547

Schedule 3

City of Van Horne
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

Receipts:	
Property tax	\$ 22,152
Other city tax:	
Mobile home tax	63
Utility tax replacement excise tax	877
	<u>940</u>
Total receipts	<u>23,092</u>
Disbursements:	
Community Protection Program:	
Debt service:	
Principal redeemed	15,000
Interest paid	7,566
Registrar fees	300
	<u>22,866</u>
Home and Community Environment Program:	
Debt service:	
Principal redeemed	4,822
Interest paid	832
	<u>5,654</u>
Total disbursements	<u>28,520</u>
Deficiency of receipts under disbursements	(5,428)
Other financing sources:	
Operating transfers in:	
General:	
General	<u>11,433</u>
Excess of receipts and other financing sources over disbursements	6,005
Balance beginning of year	<u>1,126</u>
Balance end of year	<u>\$ 7,131</u>

See accompanying independent auditor's report.

City of Van Horne
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Sewer Rental	Solid Waste	Water Meter Deposit	Total
Receipts:					
Use of money and property:					
Interest on investments	\$ -	-	-	3	3
Charges for service:					
Sale of water	105,514	-	-	-	105,514
Sewer rental fees	-	125,058	-	-	125,058
Refuse collection	-	-	41,127	-	41,127
	105,514	125,058	41,127	-	271,699
Miscellaneous:					
Deposits and fees	3,561	-	-	-	3,561
Total receipts	109,075	125,058	41,127	3	275,263
Disbursements:					
Home and Community Environment Program:					
Personal services	32,012	11,889	3,348	-	47,249
Contractual services	21,389	604,925	29,916	-	656,230
Commodities	53,079	203	-	-	53,282
Debt service:					
Interest paid	-	3,824	-	-	3,824
Total disbursements	106,480	620,841	33,264	-	760,585
Excess (deficiency) of receipts over (under) disbursements	2,595	(495,783)	7,863	3	(485,322)
Other financing sources (uses):					
Sewer revenue bond proceeds	-	521,900	-	-	521,900
Operating transfers in (out):					
Enterprise:					
Water Meter Deposits	(16,665)	-	-	-	(16,665)
Water	-	-	-	16,665	16,665
Total other financing sources (uses)	(16,665)	521,900	-	16,665	521,900
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(14,070)	26,117	7,863	16,668	36,578
Balance beginning of year	2,341	(37,567)	27,569	-	(7,657)
Balance end of year	\$ (11,729)	(11,450)	35,432	16,668	28,921

See accompanying independent auditor's report.

Schedule 5

City of Van Horne
Schedule of Cash Transactions
Internal Service Fund
Year ended June 30, 2002

	<u>Equipment Replacement</u>
Receipts:	
Use of money and property:	
Interest on investments	\$ 868
Miscellaneous:	
General Fund allocation	5,102
Total receipts	<u>5,970</u>
Disbursements:	
None	<u>-</u>
Excess of receipts over disbursements	5,970
Other financing uses:	
Operating transfers out:	
General:	
General	<u>(20,557)</u>
Deficiency of receipts under disbursements and other financing uses	(14,587)
Balance beginning of year	<u>14,587</u>
Balance end of year	<u><u>\$ -</u></u>

See accompanying independent auditor's report.

City of Van Horne
Schedule of Cash Transactions
Expendable Trust Fund
Year ended June 30, 2002

	<u>Library Memorial</u>
Receipts:	
Use of money and property:	
Interest on investments	\$ 106
Disbursements:	
None	<u>-</u>
Excess of receipts over disbursements	106
Other financing uses:	
Operating transfers out:	
General:	
Library	<u>(106)</u>
Excess of receipts over disbursements and other financing uses	-
Balance beginning of year	<u>2,000</u>
Balance end of year	<u><u>\$ 2,000</u></u>

See accompanying independent auditor's report.

Schedule 7

City of Van Horne
Schedule of Cash Transactions
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expend- itures
Indirect:			
U.S.Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for State			
Revolving Funds	66.458	CS-19-2153-01	\$ 407,722
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-7952(1)-70-06	<u>76,000</u>
Total			<u>\$ 483,722</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant and loan activity of the City of Van Horne and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

The outstanding loan balance of the Environmental Protection Agency's Capitalization Grants for State Revolving Funds program was \$531,150.

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Van Horne, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 27, 2003. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United State

Compliance

As part of obtaining reasonable assurance about whether the City of Van Horne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance that, although not material to the financial statements, is required to be reported under Government Auditing Standards and which is described in Part II of the accompanying Schedule of findings and Questioned Costs. In addition, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City of Van Horne's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-02, IV-H-02, IV-I-02, IV-J-02 and IV-M-02.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Van Horne's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Van Horne's ability to record, process, summarize and report financial data

consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-02 and II-C-02 are material weaknesses. Prior year reportable conditions have not been resolved and are repeated as items II-A-02, II-B-02, II-C-02, II-D-02 and II-E-02.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Van Horne and other parties to whom the City of Van Horne may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Van Horne during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

February 27, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Van Horne



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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Van Horne, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2002. The City of Van Horne's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Van Horne's management. Our responsibility is to express an opinion on the City of Van Horne's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Van Horne's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Van Horne's compliance with those requirements.

In our opinion, the City of Van Horne complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the City of Van Horne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Van Horne and other parties to whom the City of Van Horne may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

February 27, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Van Horne
Schedule of Findings and Questioned Costs
Year ended June 30, 2002

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were identified.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 – Capitalization Grants for State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Van Horne did not qualify as a low-risk auditee.

City of Van Horne
Schedule of Findings and Questioned Costs
Year ended June 30, 2002

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

A special report dated January 31, 2003, covering the period June 1, 2000 through December 31, 2002, identified \$7,776.44 of improper disbursements and \$731.91 of questionable disbursements.

REPORTABLE CONDITIONS:

II-A-02 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:

- (1) Banking – prepares bank reconciliation along with other cash receipts and disbursements functions
- (2) Investments – has custody of investments and performs all record keeping
- (3) Long-term Debt – maintains long-term debt records and performs cash functions
- (4) Receipts – collecting, depositing, journalizing, posting, and recording
- (5) Disbursements – expenditure preparation, recording, check writing, check signing, and reconciling
- (6) Utilities – billing, collecting, and posting
- (7) Payroll – recording, reconciling, check preparation, and distribution

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances.

Response – The Clerk will provide to the Council a financial report, copies of all checking and savings account monthly and quarterly statements and monthly expenditure reports for all departments.

Two signatures will be required on each check with supporting data for each check, especially payroll and reimbursements.

Conclusion – Response acknowledged. In addition, the City should continue to evaluate ways to segregate duties with existing personnel. Review of financial transactions and reports by administrative personnel should be evidenced by the person's initials and date.

II-B-02 Records of Accounts – The accounting records for the Library are maintained separately. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response – The Library will be required to send a copy of its monthly minutes and a list of receipts and disbursements to the City Clerk monthly.

Conclusion – Response accepted.

II-C-02 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings collections and delinquent accounts were not reconciled throughout the year. The utility collections were not reconciled to deposits. Also, no delinquency reports were found for the year ended June 30, 2002.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations, monitor delinquencies and keep a copy of the delinquency report for each month.

Response – Utility bills will be reconciled on a monthly basis. We will implement a policy for any delinquent accounts or accounts that have been left unpaid. The City Clerk will retain all billing stubs and make a form for those who do not return their stubs with payment. For all bills that are paid in cash we will write "CASH" on the stubs.

Conclusion – Response acknowledged. The city should also keep a copy of the delinquency reports for each month.

II-D-02 Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel and act as a quick reference to staff members and officials.
- (2) Helps streamline accounting operations by achieving uniformity in accounting and in the application of policies and procedures.
- (3) Saves supervisory time by recording decisions so that they will not have to be made each time the same, or a similar, situation arises.
- (4) Helps to preserve the key elements in the City's internal control structure.
- (5) Increases effectiveness and efficiency in your City.

Response – The City will obtain accounting policies and procedural manuals from surrounding towns and will ask the council to implement a manual fitting the needs of the City of Van Horne.

Conclusion – Response accepted.

II-E-02 Information Systems – During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

- All employees utilize only one user log-in and password and that password is not required to be changed on a regular basis.
- The City does not have a written policy regarding usage of the internet.
- The City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems. A written disaster recovery plan should be developed.

Response – The Deputy City Clerk has changed the passwords on the computers. The passwords will be changed on a yearly basis.

The City Council will adopt an Internet usage policy.

The City Council will adopt a written disaster recovery plan.

Conclusion – Response accepted.

II-F-02 Compensated Absences – A detailed record of vacation and sick leave earned and used by each employee is not maintained.

Recommendation – A detailed record of employee compensated absences should be maintained to account for the proper accumulation and use of this time.

Response – The City Clerk will keep an itemized time card, complete with all vacation, sick and holiday hours. The current payroll system will also be utilized to keep track of all employees' sick, holiday and vacation hours.

Conclusion – Response accepted.

II-G-02 Receipts – Individual checks were not listed on the bank deposit slips.

Recommendation – Documentation should be prepared and retained that identifies the detail of the items included in a specific bank deposit.

The documentation should include enough detail to identify the remitter and whether the collection was cash or check.

Response – The City Council will discuss a possible system in which receipts can be better tracked through the current operating system.

Conclusion – Response acknowledged. The system should include the requirement of having checks listed out separately on each deposit slip.

II-H-02 Disbursements – Certain disbursements were not approved and certain other disbursements were not approved by the Council prior to disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to Council approval.

The City Clerk controlled the use of the Mayor's facsimile signature stamp.

Unused checks were not properly safeguarded.

Recommendation – All City disbursements should be approved by the Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to Council approval, a listing should be provided to the Council at the next Council meeting for review and approval.

Also, checks issued should be countersigned by a person who does not otherwise participate in the preparation of checks. Prior to signing, the checks and supporting documents should be reviewed for propriety.

Unused checks should be adequately controlled and safeguarded.

Response – All disbursements will be approved by the City Council or Mayor before checks will be disbursed. Any check that is approved by the Mayor before a council meeting will be submitted to the City Council on a separate form. Also, the signature stamp has been destroyed. All checks now require the person responsible for countersigning to be independent from bookkeeping and review supporting documentation before signing. Unused checks will be stored in a fireproof locked safe from now on with access limited to those individuals authorized to sign them.

Conclusion – Response accepted.

City of Van Horne
Schedule of Findings and Questioned Costs
Year ended June 30, 2002

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over major programs were identified.

City of Van Horne
Schedule of Findings and Questioned Costs
Year ended June 30, 2002

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-02 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2002.

IV-B-02 Certified Budget – Disbursements during the year ended June 30, 2002 exceeded the amount budgeted in the Home and Community Environment Program. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The 2003 budget will be amended and the City Council will amend future budgets as required, if necessary.

Conclusion – Response accepted.

IV-C-02 Questionable Disbursements – There were several disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. These disbursements are detailed in a Report On Special Investigation of the City of Van Horne issued by the Office of Auditor of State dated January 31, 2003.

IV-D-02 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-02 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-F-02 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-G-02 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

The City Council went into closed sessions on December 14, 2002, December 21, 2002, January 14, 2003 and January 28, 2003 to discuss an employee's performance. The meetings were not closed in accordance with Chapter 21 of the Code of Iowa, commonly known as the open-meetings law, and were not taped as required.

Additionally, the City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa by stating the purpose for which the meeting is being closed and the vote of each individual Council Member. The City should keep detailed minutes of all discussion, persons present, and action occurring at a closed session, and should also tape record all of the closed session. These documents are to be sealed and are not public records open to public inspection.

The City should publish annual individual gross salaries as required.

Response – The Clerk will obtain a Copy of Chapter 21.5 of the Code of Iowa and will follow the guidelines regarding any closed meetings. Also, annual gross wages paid to all City employees will be published as required.

Conclusion – Response accepted.

- IV-H-02 Deposits and Investments – Except as noted, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

The City does not have a written investment policy.

Recommendation – The City should develop a written investment policy as required by Chapter 12B.10(3) of the Code of Iowa.

Response – The City Council will look into the development and adoption of a written investment policy.

Conclusion – Response acknowledged. The City should comply with the requirement.

- IV-I-02 Employee Benefits Tax Levy – The City appears to have used proceeds of the Special Revenue, Employee Benefits Fund property tax levy for the Enterprise, Water, Sewer, and Solid Waste Funds, which is contrary to rules adopted by the City Finance Committee in accordance with Chapter 384.15 of the Code of Iowa.

Recommendation – The City should review this matter and take appropriate corrective action. Also, the City should insure that property tax is levied and expended for employee benefits only for employees paid from the General Fund and the Special Revenue, Road Use Tax Fund.

Response – The City will take appropriate corrective action and will comply with Chapter 384.15 of the Code of Iowa.

Conclusion – Response accepted.

- IV-J-02 City Code – The City Code has not been recodified within the past five years.

Recommendation – Chapter 380.8(2) of the Code of Iowa states in part, “At least once every five years, a City shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys.” The City should review this for compliance.

Response – We are in the process of finalizing the codification.

Conclusion – Response accepted.

IV-K-02 TIF Taxes – The City recorded tax increment financing collections in the General Fund.

Recommendation – Chapter 403.19(2) of the Code of Iowa requires that these collections be allocated to and when collected be paid into a special fund of the municipality to retire debt incurred. The City should record the receipt of tax increment financing monies in a Special Revenue Fund of the City and then disburse or transfer the funds to the appropriate fund for the retirement of debt.

Response – We have already moved the TIF line item from the General Fund to the Special Revenue Fund.

Conclusion – Response accepted.

IV-L-02 Sewer Revenue Bonds – The City has not established the Enterprise, Sewer Revenue Bond Sinking Fund as required by the sewer revenue bond indenture. Also, the deficit balance in the Enterprise, Sewer Rental Fund appears to violate provisions of the sewer revenue bond resolution which state that the bonds and interest are payable solely and only from the net earnings of the sewer enterprise.

Recommendation – City officials should review the sewer revenue bond resolution and comply with provisions of the resolution. The City should establish the Enterprise, Sewer Revenue Bond Sinking Fund and make the necessary transfers as required by the bond indenture.

Response – The Enterprise, Sewer Revenue Bond Sinking Fund has been established. We will review the bond indenture for compliance with the requirements.

Conclusion – Response accepted.

IV-M-02 Deficit Balances – The following funds had deficit balances at June 30, 2002:

<u>Fund</u>	<u>Amount</u>
Enterprise:	
Water	\$ (11,729)
Sewer Rental	(11,450)

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

Response – The City will look into eliminating these deficits and will attempt to keep its finances sound.

Conclusion – Response accepted.

City of Van Horne

Staff

This audit was performed by:

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